2002 ANNUAL REPORT

SCI INCOME TRUST

SIMMONS Beautyrest
MATTRESS COLLECTION
The Bowling Ball Mattress.

SIMMONS NEW GENERATION BackCare
MATTRESS COLLECTION
Better Support. Better Sleep.

SIMMONS DREAMSCAPES
MATTRESS COLLECTION
Escape From The Ordinary.

SIMMONS BEAUTYSLEEP
MATTRESS COLLECTION
Exceptional Comfort and Value.

SCI Income Trust

Annual General Meeting

Thursday, May 29, 2003
at 10:00 a.m.
The Simmons Showroom
Suite 107, Toronto International Centre
6900 Airport Road, Mississauga, Ontario

Contents

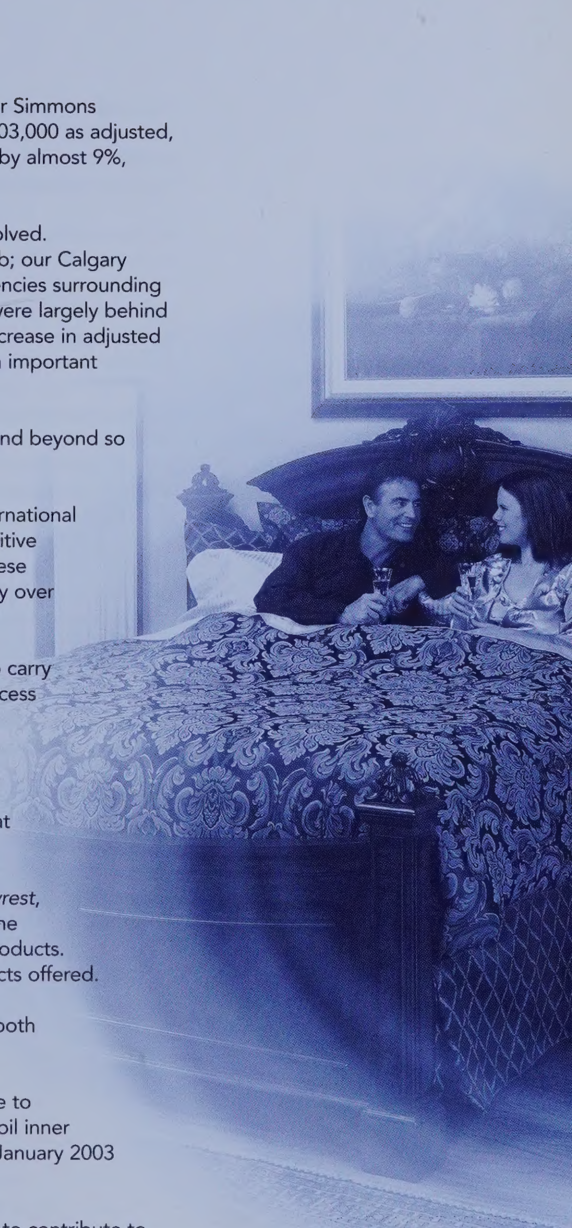
SCI Income Trust

Letter to the Unitholders

We are pleased to report your Trust's results for 2002. It was a good year for Simmons Canada. Net income of $11,422,000 rebounded strongly compared to $7,403,000 as adjusted, in 2001, with bedding unit volumes growing by 8% and revenue increasing by almost 9%, reflecting an improvement in product mix.

The operating difficulties previously described in last year's report were resolved. There were no further Quebec manufacturing labour lockout costs to absorb; our Calgary factory expansion became fully integrated and operational; and the inefficiencies surrounding the conversion to our new manufacturing computer software and systems were largely behind us. These factors coupled with the increase in sales contributed to a 54% increase in adjusted net income over 2001. Improving operating efficiency will continue to be an important corporate focus.

Collective Agreements with our labour unions are in effect until May 2004 and beyond so 2003 will be a year free of scheduled contract negotiations.



At the annual Canadian furniture market held in January at the Toronto International Centre, we showed many exciting new products which elicited a strong positive reaction from our dealers. This resulted in many new floor placements of these new products. The value of orders written at the show increased significantly over the previous year.

Our just-in-time manufacturing and delivery program enables our dealers to carry minimal stock levels and continues to be a significant contributor to our success in the marketplace.

The last quarter of 2002 reflected reduced consumer participation in the marketplace and may have been influenced by the world uncertainties and the impact of these uncertainties on the Canadian consumer. We expect that this uncertainty will carry over into the first half of 2003.

Our internationally known Simmons brand name bedding products - *Beautyrest*, *BackCare* and *Beautysleep* continue as flagship products. New for 2003 is the introduction of the *Dreamscapes* collection of value priced pocketed coil products. With this addition, Simmons has the most diverse range of pocketed products offered.

We continue to expand our assortment of Non-Flip mattresses available in both our *Beautyrest* and *BackCare* lines.

Due to the popularity of our *BackCare* program and its' growing importance to our product assortment, we converted all models to a five zone pocketed coil inner construction. This was one of our new products that was introduced at the January 2003 Furniture show that was received with great enthusiasm.

The private label products that we manufacture for Sears and Ikea continue to contribute to our success, as does the *ObusForme* line of sleep sets that we manufacture and distribute under license. The licensing arrangement whereby Simmons outsourced its upholstery business to a third party operating as Simmons Upholstery Canada, went through a smooth transition. We are continuing our pursuit of other viable license opportunities.

The independently owned and operated Simmons Mattress Galleries and Simmons Sleep Centres continue to grow and prosper. Aggregate sales rank them solidly in our top ten customers. Planned expansion of both these groups continues.

SIMMONS Beautyrest MATTRESS COLLECTION The Bowling Ball Mattress.

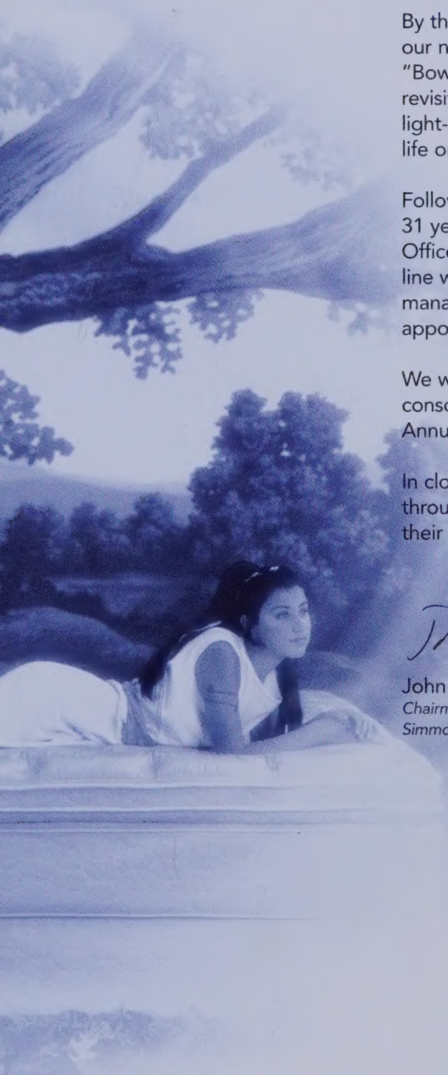
Our website at www.simmonscanada.com has been further updated to offer a friendly, interactive information base. The site offers an overview of all Simmons' products with dealer locators to assist consumers in making a purchase. Also featured is an industry exclusive forum for consumer feedback and on-line warranty registration.

By the time that unitholders receive this report we will have launched our new television campaign for 2003. The original Simmons "Bowling Ball" commercial, which first aired in 1995, has been revisited. The new "Human Ball" commercial is an intrusive, light-hearted venue where the Bowling Ball and Pins come to life on a *Beautyrest* – the "original independent pocket coil".

Following the May 23, 2002 Annual Meeting, Pat Thody, after 31 years of service, retired as Chairman and Chief Executive Officer. John Newman was appointed non executive Chairman in line with the Boards' policy to separate the role of Chairman from management. In addition Terry Pace was elected to the Board and appointed President and Chief Executive Officer.

We would encourage you to read the Management's Discussion and Analysis and the consolidated financial statements with their accompanying notes contained in the body of this Annual Report.

In closing we would like to thank Pat Thody for his many contributions to Simmons' success throughout his career and to thank our customers, suppliers, employees and unitholders for their continued support in 2002.



John B. Newman
Chairman of the Board
Simmons Canada Inc.

Terry H. Pace
President and Chief Executive Officer
Simmons Canada Inc.

Beautyrest
MATTRESS COLLECTION
The Bowling Ball Mattress.

This discussion should be read in conjunction with the consolidated financial statements and accompanying notes presented herein. These statements report the results for SCI Income Trust (the "Trust") for the years ended December 31, 2002 and 2001. The results for the Trust are dependent entirely on the operations of its wholly-owned subsidiary, Simmons Canada Inc. ("Simmons").

Revenue, Gross Profit and Net Income

Revenue of $130,870,000 for the year ended December 31, 2002 was up 9% over last year mainly on the strength of increased volumes. On a quarterly basis, revenues exceeded last year in each quarter (see table on following page). The first two quarters experienced significantly stronger demand than the same two quarters of 2001. Beginning late in the third quarter however the market began to slow down. The slow down continued into the fourth quarter when revenue was only marginally up over 2001.

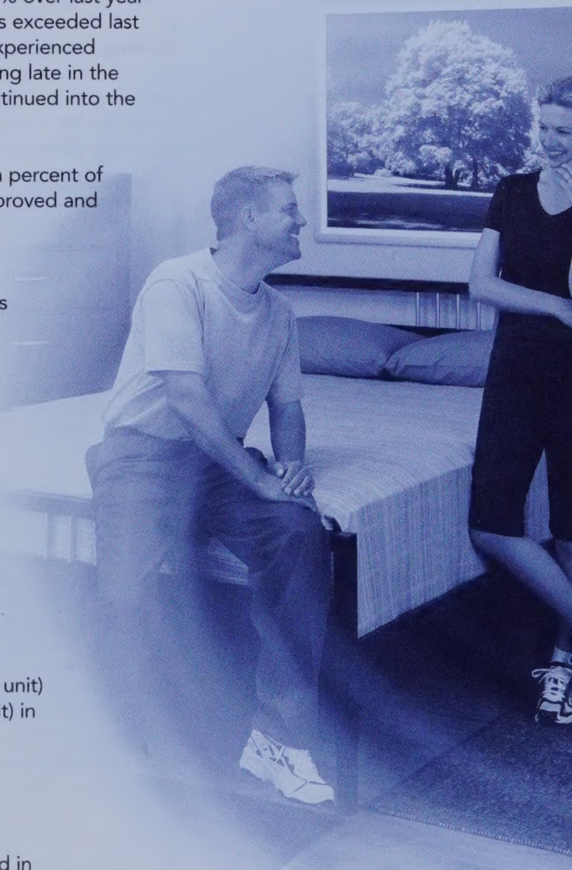
Gross profit for 2002 of $40,867,000 was up 24% versus prior year and as a percent of sales increased by 3.8 percentage points as volumes grew, product mix improved and manufacturing costs improved.

Selling, general and administrative expenses increased $1,804,000 or 9% over 2001. Variable selling and marketing costs and management incentives were up in line with the revenue increase and income improvement. Pension expense increased from $528,000 in 2001 to $1,044,000 in 2002, due to reductions in pension plan investment performance. The pension expense was higher in the fourth quarter due to timing.

Interest expense was lower in 2002 as the operating and demand loans were reduced.

The current year was also favourably impacted when compared to last year by a reduction in restructuring costs from last year (also see note 11 to the consolidated financial statements) when the majority of the costs related to the transfer of the upholstery business to Simmons Upholstery Canada were incurred.

All of the above resulted in net income in 2002 of $11,422,000 ($1.487 per unit) an increase of 54% over adjusted net income of $7,403,000 ($0.964 per unit) in 2001 (see notes 1(g) and 13 to the consolidated financial statements).



Distributions to Unitholders

Distributions to unitholders and the basis of their determination are detailed in note 9 to the consolidated financial statements. As approved by unitholders at the 2001 annual general and special meeting held on May 23, 2002, distributions to unitholders changed from quarterly to monthly beginning with the July 15 distribution. Total distributions to unitholders in 2002 were $9,994,000 ($1.300 per unit) compared to $7,820,000 ($1.020 per unit) in 2001. The increase in distributions reflects the improved net income in the year. The taxable distributions to unitholders in 2002 were $0.946 comprised of $0.242 of dividend income and $0.704 of other taxable income. In 2001, taxable distributions were $0.679. As of December 31, 2002, the majority of capital has been returned to unitholders and therefore future distributions are planned to consist of dividends not returns of capital.

Capital Expenditure Related Payments

Capital expenditure related payments for 2002 of $3,037,000 (note 9 to the consolidated financial statements) were roughly the same as prior year of $2,987,000. Expenditures were primarily of a routine nature to replace equipment as needed. Included in these payments were installment payments totaling $300,000 ($316,000 in 2001) on the original $1,500,000 demand installment loan payable to fund an expansion in Calgary in 2000.

Liquidity

Working capital at December 31, 2002 of $13,653,000 was higher than prior year of $11,647,000. Accounts receivable were at similar levels to 2001 as sales in the fourth quarter were also similar to last year. Inventory levels were up slightly on prior year reflecting cost increases and timing. Current liabilities have been reduced mainly related to reductions in bank loans. Offsetting this reduction in loans was a short term increase in accounts payable and accrued liabilities partially related to timing of payments and partially due to revenue related accruals.

The increase in cash and cash equivalents of $1,854,000 during 2002 was attributable to the increase in net income partially offset by reductions in outstanding bank loans and increased distributions to unitholders.

Quarterly Financial Highlights

		2002				
		Q1	**Q2**	**Q3**	**Q4**	**Total Year**
Revenue		$ 31,064	$ 34,731	$ 37,255	$ 27,820	$ 130,870
Net income		2,715	3,268	3,608	1,831	11,422
Net income per unit	- basic	$ 0.354	$ 0.426	$ 0.470	$ 0.237	$ 1.487
	- diluted	0.353	0.425	0.468	0.236	1.482
Cash distributions per unit	- basic	$ 0.250	$ 0.350	$ 0.300	$ 0.400	$ 1.300
	- diluted	0.250	0.349	0.299	0.398	1.296
		2001				
		Q1	**Q2**	**Q3**	**Q4**	**Total Year**
Revenue		$ 26,950	$ 30,933	$ 35,087	$ 27,165	$ 120,135
Adjusted net income		1,535	2,037	3,005	826	7,403
Adjusted net income per unit	- basic	$ 0.201	$ 0.266	$ 0.392	$ 0.105	$ 0.964
	- diluted	0.199	0.264	0.390	0.107	0.960
Cash distributions per unit	- basic	$ 0.325	$ 0.325	$ 0.300	$ 0.070	$ 1.020
	- diluted	0.324	0.323	0.298	0.070	1.015

Outlook

Management anticipates the slowdown in consumer activity experienced late in 2002 to continue into the first half of 2003 due to world uncertainties and the impact of these uncertainties on the Canadian consumer. However, offsetting some of this uncertainty, there has been strong initial dealer reaction for our new product offerings for 2003.

SIMMONS DREAMSCAPES™ MATTRESS COLLECTION Escape From The Ordinary.

Management's Report to the Unitholders of SCI Income Trust

Management of Simmons Canada Inc., as administrator of SCI Income Trust, is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and other information in the annual report. The consolidated financial statements have been prepared using generally accepted accounting principles in Canada including, where applicable, amounts based on management's best estimates. By their nature, these estimates are subject to measurement uncertainty and actual results could differ from these estimates. Financial information elsewhere in this annual report is consistent with that in the consolidated financial statements.

Simmons Canada Inc. maintains a system of internal controls designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial information is relevant, reliable and is presented on a timely basis.

The board of directors of Simmons Canada Inc. is responsible for ensuring that management fulfils its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The board of directors carries out its responsibility principally through its audit committee.

The audit committee, consisting of non-management directors, is appointed by the board of directors. The audit committee has reviewed the consolidated financial statements with management and the auditors and has recommended their approval by the board of directors.

KPMG LLP, an independent firm of Chartered Accountants appointed by the board of directors, has examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards and its report is included herein.

T.H. Pace

Terry H. Pace
President and Chief Executive Officer
Simmons Canada Inc.

B. Anderson

Brian M. Anderson
Senior Vice-President and Chief Financial Officer
Simmons Canada Inc.

Auditor's Report to the Unitholders of SCI Income Trust

We have audited the consolidated balance sheets of SCI Income Trust as at December 31, 2002 and 2001 and the consolidated statements of income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada, February 20, 2003

December 31, 2002 and 2001 *(In thousands of dollars)*

		2002	2001
Assets			
Current assets:			
Short-term investments (note 2)		**$ 1,422**	$ 527
Accounts receivable		**19,260**	19,574
Income taxes recoverable		**–**	631
Inventories (note 3)		**5,650**	5,354
Prepaid expenses		**2,453**	1,884
		28,785	27,970
Long-term accounts receivable (note 4)		**968**	333
Property, plant and equipment (note 5)		**16,683**	17,301
Employee future benefits (note 6)		**145**	395
Deferred finance charges		**2,105**	2,190
License agreement		**25,416**	25,416
Goodwill		**13,941**	13,941
		$ 88,043	$ 87,546
Liabilities and Unitholders' Equity			
Current liabilities:			
Bank overdraft (note 2)		**$ 313**	$ 1,272
Operating loan (note 7)		**972**	2,887
Demand instalment loan (note 7)		**875**	1,175
Accounts payable and accrued liabilities		**11,126**	10,452
Income taxes payable		**302**	–
Distributions payable to unitholders (note 9)		**1,544**	537
		15,132	16,323
Capital lease obligations (note 10)		**2,027**	2,807
Future income taxes (note 12)		**5,044**	4,494
Unitholders' equity		**65,840**	63,922
Commitments and contingencies (notes 10 and 14)			
		$ 88,043	$ 87,546

See accompanying notes to consolidated financial statements.

Approved on behalf of SCI Income Trust by its attorney, Simmons Canada Inc.:

Randall G. Provost
Director and Chairman of the Audit Committee
Simmons Canada Inc.

Terry H. Pace
President, Chief Executive Officer and Director
Simmons Canada Inc.

Consolidated Statements of Income

Years ended December 31, 2002 and 2001 *(In thousands of dollars, except per unit information)*

		2002		2001
Revenue	$	**130,870**	$	120,135
Cost of products sold		**90,003**		87,172
		40,867		32,963
Expenses:				
Selling, general and administrative		**22,774**		20,970
Interest		**215**		561
Interest on capital leases		**326**		392
Amortization:				
Plant and equipment		**2,610**		2,310
Deferred finance charges		**85**		85
License agreement and goodwill		**–**		1,100
		26,010		25,418
Income before the undernoted		**14,857**		7,545
Restructuring and closure costs (note 11)		**135**		461
Income before income taxes		**14,722**		7,084
Income taxes (recovery) (note 12):				
Current		**2,750**		(190)
Future		**550**		691
		3,300		501
Net income	$	**11,422**	$	6,583
Net income per unit:				
Basic	$	**1.487**	$	0.859
Diluted		**1.482**		0.855

See accompanying notes to consolidated financial statements.

Consolidated Statements of Unitholders' Equity

Years ended December 31, 2002 and 2001 *(In thousands of dollars)*

		2002		2001
Unitholders' equity, beginning of year	$	**63,922**	$	65,014
Issuance of trust units (note 8)		**490**		145
Net income		**11,422**		6,583
Distributions to unitholders (note 9)		**(9,994)**		(7,820)
Unitholders' equity, end of year	$	**65,840**	$	63,922

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2002 and 2001 *(In thousands of dollars)*

		2002		2001
Cash provided by (used in):				
Operating activities:				
Net income	$	11,422	$	6,583
Items not affecting cash:				
Amortization:				
Plant and equipment		2,610		2,310
Deferred finance charges		85		85
License agreement and goodwill		–		1,100
Loss (gain) on sale of property, plant and equipment		(20)		42
Employee future benefits		250		(89)
Future income taxes		550		691
		14,897		10,722
Change in non-cash operating working capital		406		(644)
		15,303		10,078
Financing activities:				
Issuance of trust units		490		145
Distributions to unitholders		(8,987)		(10,919)
Decrease in operating loan		(1,915)		(154)
Repayment of demand instalment loan		(300)		(316)
Repayment of capital lease obligations		(1,550)		(1,528)
		(12,262)		(12,772)
Investing activities:				
Purchase of property, plant and equipment		(1,207)		(1,147)
Proceeds from sale of property, plant and equipment		20		4
		(1,187)		(1,143)
Increase (decrease) in cash and cash equivalents		1,854		(3,837)
Cash and cash equivalents, beginning of year		(745)		3,092
Cash and cash equivalents, end of year (note 2)	$	1,109	$	(745)
Supplemental cash flow information:				
Interest paid	$	229	$	591
Income taxes paid		1,817		989
Dividends and interest received		28		82
Non-cash investing and financing activities:				
Acquisition of property, plant and equipment through capital leases		785		1,052

See accompanying notes to consolidated financial statements.

Years ended December 31, 2002 and 2001 *(Tabular amounts in thousands of dollars, except per unit information)*

SCI Income Trust (the "Trust") is an open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust as of August 22, 1997, as amended and restated as of October 2, 1997 and as further amended on May 21, 1998 and on May 23, 2002. The Trust qualifies as a mutual fund trust for the purposes of the Income Tax Act.

The Trust was created to invest in securities of Simmons Canada Inc. ("Simmons"). The Trust holds all the outstanding common shares of Simmons and $50,000,000 principal amount of 12% unsecured subordinated notes of Simmons (note 1(a)).

Simmons, which acts as Administrator of the Trust, operates within Canada in the manufacture and sale of mattresses, upholstery and furniture, which is its only line of business.

1. Significant accounting policies:

The consolidated financial statements of the Trust have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

(a) Basis of presentation:

The consolidated financial statements of the Trust include the accounts of Simmons, its wholly owned subsidiary. All inter-entity transactions have been eliminated.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, bank balances (overdraft) and short-term investments with an original maturity of three months or less.

Short-term investments are carried at cost plus accrued interest.

(c) Inventories:

Raw materials and spare parts are carried at the lower of cost and replacement cost. Finished goods and work in process are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

(d) Property, plant and equipment:

Property, plant and equipment are stated at cost. Amortization is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	30 years
Machinery and equipment	1 – 15 years
Machinery and equipment under capital leases	5 – 15 years
Leasehold improvements	Over life of lease

Assets under development are not amortized until the assets are available for use.

(e) Employee future benefits:

Simmons administers a registered combined non-contributory defined benefit and defined contribution pension plan for substantially all of its full-time employees. Under the registered defined benefit plan segment, benefits are based upon earnings and years of credited service.

Simmons also sponsors a retirement compensation arrangement ("RCA") for certain senior officials. The RCA provides benefits in addition to the Simmons pension plan.

In addition, Simmons funds a multiemployer defined contribution pension plan for certain employees.

No retirement benefits other than pensions are provided to employees.

Simmons accrues its obligations under employee benefit plans as the employees render the services necessary to earn the pension benefits. Simmons has adopted the following policies:

(i) The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages.

(ii) For the purpose of calculating expected return on plan assets, those assets are valued at fair values.

(iii) The initial net transition asset and past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at January 1, 1999 and at the date of the amendment, respectively.

(iv) The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees, which for the registered defined benefit plan segment is 16 years and for the RCA is eight years.

(v) When an event gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

(f) Deferred finance charges:

Deferred finance charges are costs incurred by Simmons for arranging and issuing, to the Trust, 12% unsecured subordinated notes. Deferred finance charges are amortized over the term of the notes, being 30 years. Accumulated amortization as at December 31, 2002 is $442,000 (2001 – $357,000).

(g) Goodwill and intangible assets:

In July 2001, The Canadian Institute of Chartered Accountants ("CICA") issued new accounting standards for "Goodwill and Other Intangible Assets", Handbook Section 3062. These standards require that goodwill and certain other intangible assets will no longer be amortized and will be tested for impairment at least annually and written down only when impaired. These standards will apply to existing goodwill and intangible assets, and have been adopted by the Trust beginning January 1, 2002. Had these standards been applied for the year ended December 31, 2001, net income would have been increased by $820,000, net of income taxes of $280,000. A reconciliation of the impact to net income and net income per unit is presented in note 13.

In March 2002, the CICA issued a Notice relating to the transitional provisions of Handbook Section 3062 that allows for intangible assets under certain circumstances to be reclassified apart from goodwill. The Trust has reclassified $25,416,000 of its goodwill to license agreement under the guidance of this Notice.

The Trust has determined that its initial adoption of these standards did not impact the carrying value of license agreement and goodwill on its consolidated financial statements.

In the prior year, license agreement and goodwill were recorded at cost less accumulated amortization of $4,620,000. License agreement and goodwill, which represented the excess of the purchase price over the fair value of assets acquired and liabilities assumed, were amortized on a straight-line basis over 40 years. The net carrying amounts of license agreement and goodwill would be written down if the values were permanently impaired. The Trust assessed impairment by determining whether the unamortized license agreement and goodwill balances could be recovered through undiscounted future operating cash flows of the acquired operation over its remaining life.

(h) Trust Unit Option Plan:

Simmons has the ability to grant options to directors, officers and employees of Simmons under the Trust Unit Option Plan (the "Option Plan") (note 8(b)). No compensation expense is recognized when options are issued to these individuals. Any consideration paid to the Trust on exercise of options is credited to unitholders' equity on the consolidated balance sheet.

In December 2001, the CICA issued new accounting standards for "Stock-Based Compensation and Other Stock-Based Payments", Handbook Section 3870, which establishes new standards for recognition, measurement and disclosure of stock-based compensation and other stock-based payments made to employees and non-employees in exchange for goods and services. The Trust has adopted the new standards beginning January 1, 2002. The new standards allow the Trust to account for the Option Plan which provides "exempt awards to employees" using the settlement method previously applied. The Trust determined that the adoption of the new standards did not impact its consolidated financial statements.

(i) Income taxes:

Simmons uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

(j) Net income per unit:

Basic net income per unit has been calculated using the weighted average number of units outstanding of 7,681,268 (2001 – 7,664,156).

Diluted net income per unit has been calculated using the treasury stock method as follows:

	Weighted number of units outstanding	
	2002	2001
Basic	**7,681,268**	7,664,156
Effect of trust unit options	**27,984**	38,565
Diluted	**7,709,252**	7,702,721

(k) Foreign exchange translation:

Monetary items denominated in a foreign currency are translated to Canadian dollars at the exchange rate in effect at the balance sheet date and non-monetary items are translated at the rate of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at the rate in effect at the time of the transaction. Foreign exchange gains and losses are included in income.

(l) Derivative financial instruments:

Simmons uses derivative financial instruments to reduce its exposure to fluctuations in U.S. dollar exchange rates. Simmons enters into U.S. dollar future exchange contracts and U.S. dollar option contracts as disclosed in note 14(c). Simmons does not hold or issue derivative financial instruments for trading or speculative purposes.

Simmons accounts for its derivative financial instruments using the settlement method under hedge accounting.

(m) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(n) Comparative figures:

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

2. Cash and cash equivalents:

The major components of cash and cash equivalents are as follows:

		2002		2001
Short-term investments	**$**	**1,422**	$	527
Bank overdraft		**(313)**		(1,272)
	$	**1,109**	$	(745)

Short-term investments consist of bankers' acceptances, maturing up to January 14, 2003, and earning interest at an average rate of 2.68% (2001 – 2.93%).

3. Inventories:

		2002		2001
Raw materials	**$**	**3,246**	$	3,164
Work in process		**349**		269
Finished goods		**1,088**		1,038
Spare parts		**967**		883
	$	**5,650**	$	5,354

4. Long-term accounts receivable:

		2002		2001
Long-term accounts receivable	**$**	**2,584**	$	1,744
Less current portion		**1,616**		1,411
	$	**968**	$	333

Long-term accounts receivable are instalment payments under conditional sales agreements made with hotel property owners. The amounts receivable are due at various dates up to December 2005 and bear interest at the chartered bank's prime rate plus 2% to 3%. The agreements are registered for security purposes in each province under the respective Personal Property Security Acts.

5. Property, plant and equipment:

2002		**Cost**		**Accumulated amortization**		**Net book value**
Land and buildings	**$**	**6,267**	**$**	**1,067**	**$**	**5,200**
Machinery and equipment		**10,452**		**5,049**		**5,403**
Machinery and equipment under capital leases		**9,378**		**3,754**		**5,624**
Leasehold improvements		**622**		**166**		**456**
	$	**26,719**	**$**	**10,036**	**$**	**16,683**

2001		Cost		Accumulated amortization		Net book value
Land and buildings	$	6,267	$	821	$	5,446
Machinery and equipment		9,295		3,922		5,373
Machinery and equipment under capital leases		8,610		2,554		6,056
Leasehold improvements		555		129		426
	$	24,727	$	7,426	$	17,301

Included in machinery and equipment and machinery and equipment under capital leases is $631,000 (2001 – $118,000) of assets under development. These assets are not yet available for use and are not being amortized.

6. Employee future benefits:

Information about Simmons' pension benefit plans is as follows:

	Pension benefit plans	
	2002	2001
Accrued benefit obligation:		
Balance, beginning of year	**$ 14,263**	$ 12,777
Current service cost	**830**	586
Interest cost	**932**	888
Benefits paid	**(1,032)**	(761)
Actuarial losses	**465**	773
Plan amendments	**400**	–
Balance, end of year	**$ 15,858**	$ 14,263
Plan assets:		
Fair value, beginning of year	**$ 15,237**	$ 16,493
Annual return on plan assets	**(527)**	(723)
Employer contributions, net	**365**	228
Benefits paid	**(1,032)**	(761)
Fair value, end of year	**$ 14,043**	$ 15,237
Funded status – surplus (deficit)	**$ (1,815)**	$ 974
Unamortized net accumulated experience loss	**3,425**	1,411
Unamortized past service costs	**849**	495
Unamortized transitional asset, net	**(2,314)**	(2,485)
Accrued benefit asset	**$ 145**	$ 395

As at December 31, 2002, the registered defined benefit plan segment had an accrued benefit obligation of $754,000 (2001 – $183,000).

The significant actuarial assumptions adopted in measuring Simmons' accrued benefit obligations are as follows (weighted average assumptions as of December 31):

	Pension benefit plans	
	2002	2001
Discount rate	**6.5%**	6.5%
Expected long-term rate of return on plan assets	**6.8%**	7.0%
Rate of compensation increase	**3.5%**	3.6%

Simmons' net benefit plan expense is as follows:

	Pension benefit plans	
	2002	2001
Current service cost	**$ 830**	$ 586
Interest cost	**932**	888
Expected return on plan assets	**(1,022)**	(1,141)
Amortization of past service costs	**46**	35
Amortization of transitional asset, net	**(171)**	(171)
Net benefit plan expense	**$ 615**	$ 197

Simmons' registered defined contribution plan segment expense and the multiemployer defined contribution pension expense for 2002 is $429,000 (2001 – $331,000).

7. Credit facility:

	2002	2001
Operating loan	**$ 972**	$ 2,887
Demand instalment loan	**875**	1,175
	$ 1,847	$ 4,062

Simmons has a credit facility with a major Canadian chartered bank consisting of a $15,000,000 operating line and a $1,050,000 demand instalment loan (2001 – $1,300,000). The operating loan bears interest at the chartered bank's prime rate plus 1/2% per year and the demand instalment loan bears interest at the prime rate plus 3/4% per year. The credit facility is secured by substantially all of the assets of Simmons.

Simmons has drawn on the operating line during the year and as at December 31, 2002, $972,000 (2001 – $2,887,000) is outstanding. During the year, interest of $165,000 (2001 – $471,000) was incurred on the operating loan.

Simmons fully utilized its demand instalment loan during 2000 and as at December 31, 2002, $875,000 (2001 – $1,175,000) is outstanding. The demand instalment loan is payable in monthly instalments of $25,000. Interest on the demand instalment loan amounted to $50,000 during the year (2001 – $90,000).

8. Trust units:

(a) Authorized:

Unlimited trust units

Issued:

	2002	2001
Trust units, beginning of year	**7,670,000**	7,655,000
Issuance of trust units on exercise of options	**51,000**	15,000
Trust units, end of year	**7,721,000**	7,670,000

All trust units share equally in all distributions from the Trust and carry equal voting rights. No conversion, retraction or pre-emptive rights are attached to the trust units.

(b) On May 21, 1998, the unitholders approved the Option Plan. The Option Plan is administered by the Compensation Committee of the Board of Directors of Simmons in its capacity as Administrator of the Trust. Under the Option Plan, options to acquire up to 765,500 trust units may be granted to directors, officers and employees at a price equal to the closing market value of the trust units on the preceding day upon which the options are granted. One-third of the options granted may be exercised at any time subsequent to each of the first, second and third anniversaries of the grant date. Immediate vesting of all options granted is deemed to have occurred immediately prior to the occurrence of a change in control of the Trust, as defined in the Option Plan. The options expire within seven years of the grant date. As at December 31, 2002, 219,500 (2001 – 342,500) options are available to be granted.

The following summarizes the options outstanding:

	2002		2001	
	Number of options and units	**Weighted average exercise price per unit**	Number of options and units	Weighted average exercise price per unit
Outstanding, beginning of year	**408,000**	**$ 10.12**	435,000	$ 10.11
Granted	**132,000**	**11.34**	–	–
Exercised	**(51,000)**	**(9.60)**	(15,000)	(9.69)
Expired	**(9,000)**	**(10.42)**	(12,000)	(10.21)
Outstanding, end of year	**480,000**	**10.51**	408,000	10.12
Options exercisable, end of year	**301,667**	**$ 10.16**	264,667	$ 9.98

These options will expire between November 16, 2005 and November 19, 2009.

The Trust applies the settlement method to account for options and, accordingly, no compensation cost has been recorded. If the Trust accounted for the options granted in 2002 using the fair value based method, the Trust's net income and net income per unit would be reduced to the pro forma amounts as follows:

Reported net income	$ 11,422
Deduct:	
Compensation cost	143
Pro forma net income	$ 11,279
Pro forma net income per unit:	
Basic	$ 1.468
Diluted	1.463

For purposes of the above pro forma disclosures, the options granted were valued using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	4.1%
Expected volatility	22.1%
Expected life	4 years
Expected dividends	11.0%

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option pricing models also require estimates which are highly subjective, including expected volatility of the underlying stock. The Trust bases estimates of volatility on historical rates trended into future years. Changes in assumptions can materially affect estimates of fair values.

9. Distributions to unitholders:

On June 13, 2002, the Trust began making regular monthly distributions to unitholders of record as of the last day of each month. Previously, the Trust made quarterly distributions to unitholders. Distributable cash of the Trust is equal to interest, dividends and repayments of capital from Simmons, less expenses of the Trust.

Distributions to Trust unitholders are calculated and recorded on an accrual basis. Distributions for the year ended December 31, 2002 are as follows:

Declaration date	**Payment date**	**Amount per unit**	**Total**
March 15, 2002	April 15, 2002	**$ 0.250**	**$ 1,918**
May 23, 2002	June 14, 2002	**0.250**	**1,918**
June 13, 2002	July 15, 2002	**0.100**	**767**
July 22, 2002	August 15 2002	**0.100**	**767**
August 9, 2002	September 13, 2002	**0.100**	**768**
September 16, 2002	October 15, 2002	**0.100**	**769**
October 21, 2002	November 15, 2002	**0.100**	**771**
November 19, 2002	December 13, 2002	**0.100**	**772**
December 16, 2002	January 15, 2003	**0.200**	**1,544**
		$ 1.300	**$ 9,994**

Distributions for the year ended December 31, 2001 were as follows:

Declaration date	Payment date	Amount per unit	Total
March 1, 2001	April 12, 2001	$ 0.325	$ 2,490
June 19, 2001	July 13, 2001	0.325	2,492
September 17, 2001	October 15, 2001	0.300	2,301
December 13, 2001	January 15, 2002	0.070	537
		$ 1.020	$ 7,820

Simmons distributes its available cash to the Trust based on cash provided by its operations, less capital expenditures, working capital reserves and other amounts considered advisable by the Board of Directors of Simmons.

Cash distributions for the years ended December 31, 2002 and 2001 were determined as follows:

	2002	2001
Net income	**$ 11,422**	$ 6,583
Items not affecting cash:		
Amortization:		
Plant and equipment	**2,610**	2,310
Deferred finance charges	**85**	85
License agreement and goodwill	**–**	1,100
Loss (gain) on sale of property, plant and equipment	**(20)**	42
Employee future benefits	**250**	(89)
Future income taxes	**550**	691
	14,897	10,722
Capital expenditure related payments	**(3,037)**	(2,987)
	11,860	7,735
Decrease (increase) in working capital reserve	**(1,866)**	85
Cash distributions	**$ 9,994**	$ 7,820
Cash distributions per unit:		
Basic	**$ 1.300**	$ 1.020
Diluted	**1.296**	1.015

10. Commitments:

Simmons leases various facilities and equipment. Future minimum payments, by fiscal year and in aggregate, under these non-cancellable leases are as follows:

(a) Capital leases:

Year ending December 31:	
2003	$ 1,730
2004	1,209
2005	498
2006	359
2007	180
Total minimum lease payments	3,976
Less amounts representing interest at rates between 6.8% and 9.8%	456
Present value of net minimum lease payments	3,520
Less current portion included in accounts payable and accrued liabilities	1,493
	$ 2,027

(b) Operating leases:

Year ending December 31:		
2003	$	2,382
2004		2,175
2005		2,125
2006		1,977
2007		1,988
Thereafter		10,765
Total minimum lease payments	$	21,412

11. Restructuring and closure costs:

In October 2001, Simmons entered into a licensing agreement effective January 1, 2002 with 1499324 Ontario Ltd., a third party carrying on business as Simmons Upholstery Canada, whereby Simmons Upholstery Canada manufactures and sells upholstery products under Simmons' trademarks in exchange for royalty fees. The upholstery division of Simmons effectively ceased operations in December 2001. A provision for restructuring and closure costs of $461,000, which included severances and other costs, was provided as at December 31, 2001. During 2002, a further $135,000 for other costs was incurred.

12. Income taxes:

The Trust is not taxable on any income that is distributed to unitholders. Simmons is taxable on its income at Canadian statutory tax rates.

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	2002	2001
Canadian statutory tax rate	**38.1%**	41.1%
Income before income taxes	**$ 14,722**	$ 7,084
Computed income taxes	**$ 5,609**	$ 2,912
Increase (decrease) resulting from:		
Income distributed to unitholders not subject to tax in the Trust	**(2,218)**	(2,397)
Manufacturing and processing profits deduction and rate reduction	**(341)**	(84)
Amortization of non-deductible license agreement and goodwill and other non-deductible expenses	**154**	201
Large Corporations Tax	**148**	150
Other	**(52)**	(281)
Income tax expense	**$ 3,300**	$ 501
Consisting of:		
Current (recovery)	**$ 2,750**	$ (190)
Future	**550**	691
	$ 3,300	$ 501

The components of future income taxes, which are the result of temporary differences between the carrying values and the tax values of assets and liabilities, are as follows:

	2002	2001
Future income tax asset:		
Inventories	**$ 22**	$ –
Accounts payable and accrued liabilities	**64**	28
	86	28
Future income tax liability:		
Accounts receivable	**234**	137
Property, plant and equipment	**1,546**	1,552
Employee future benefits	**46**	127
Deferred finance charges	**674**	574
License agreement and goodwill	**2,630**	2,132
	5,130	4,522
Future income tax liability, net	**$ 5,044**	$ 4,494

13. Adjusted net income:

	2002	2001
Reported net income	**$ 11,422**	$ 6,583
Add:		
Amortization of license agreement and goodwill, net of income taxes of $280	**–**	820
Adjusted net income	**$ 11,422**	$ 7,403
Adjusted net income per unit:		
Basic	**$ 1.487**	$ 0.964
Diluted	**1.482**	0.960

14. Financial instruments:

(a) Interest rate risk:

Simmons has exposure to interest rate risk as its credit facility (note 7) is subject to a floating interest rate based on the prime rate of a major Canadian chartered bank plus 1/2% to 3/4%.

(b) Credit risk:

(i) At December 31, 2002, Simmons' four major customers accounted for 59% (2001 – 55%) of the outstanding accounts receivable balances and 55% (2001 – 54%) of revenue.

Credit risk is controlled by establishing and monitoring customers based on approved credit limits. Anticipated bad debts have been provided for in an allowance for doubtful accounts.

(ii) Simmons is also exposed to credit risk in the event of non-performance by its counterparty to the U.S. dollar exchange contracts and U.S. dollar option contracts (note 14(c)). Simmons' risk is mitigated by dealing with a counterparty that is a major Canadian chartered bank.

(c) Foreign exchange risk:

Simmons enters into U.S. dollar future exchange contracts to manage its exposure to currency rate fluctuations. The outstanding U.S. dollar exchange contracts are as follows:

Notional amount	U.S. $ 6,300
Average contract rate to buy U.S. $1.00	$1.5824
Maturity dates	January 13, 2003 to October 20, 2003

In addition, Simmons enters into U.S. dollar option contracts to establish a "zero cost ratio collar" expiring up to November 17, 2003 (note 14(b)(ii)).

The outstanding U.S. dollar option contracts are as follows:

Position	Options	Notional amount	Exercise price
Buy	Call	$ 950	$ 1.5835
Sell	Put	1,252	1.5645

(d) Fair values:

The carrying values of short-term investments, accounts receivable, bank overdraft, operating loan, accounts payable and accrued liabilities and distributions payable to unitholders approximate their fair values due to the short-term maturities of these instruments.

The carrying value of long-term accounts receivable approximates its fair value.

The carrying value of the demand instalment loan approximates its fair value since interest is subject to a floating interest rate.

The fair values of capital lease obligations are estimated using discounted cash flow analysis based on Simmons' current incremental borrowing rates for similar types of arrangements. The carrying values of capital lease obligations approximate their fair values.

The fair value of the outstanding U.S. dollar future exchange contracts is estimated as the amount of any gains or losses that would result if settlement were to take place at the balance sheet date. At December 31, 2002, a settlement loss of $22,000 exists on the U.S. dollar future exchange contracts.

The fair value of the outstanding U.S. dollar option contracts is a settlement loss of $2,000.

SCI Income Trust

Corporate Directory

Directors of Simmons Canada Inc.

Brian M. Anderson
John B. Newman [1,2,3]
Terry H. Pace [2]
Randall G. Provost [1,2,3]
E. Duff Scott [1,2,3]

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Corporate Governance Committee

Senior Officers of Simmons Canada Inc.

John B. Newman
Chairman of the Board

Terry H. Pace
President and Chief Executive Officer

Brian M. Anderson
Senior Vice-President and Chief Financial Officer

Gerald T. Costigan
Vice-President – Finance

Ronald W. Dennis
Vice-President – Marketing

Wade O. Dickson
Vice-President – Manufacturing

David C. Puttock
Vice-President – Human Resources

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Stock Listing

Toronto Stock Exchange

Trust Unit Symbol

"SMN.UN"

Trustee

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Registrar and Transfer Agent

Computershare Trust Company of Canada
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Unitholder Enquiries

Gerald T. Costigan
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Toronto, Ontario

Auditor

KPMG LLP, Toronto, Ontario

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Showroom

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